



City of Galveston

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WRITTEN SUBMISSION SUBMITTED BY
BRIAN MAXWELL, CITY MANAGER
CITY OF GALVESTON, TEXAS
TO THE
TEXAS HOUSE COMMITTEE ON INSURANCE

Tuesday, September 8, 2020

Interim Charge 1: Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 86th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure intended legislative outcome of all legislation, including the following:

HB 1900, which amends the Texas Windstorm Insurance Association (TWIA) operations and funding practices. Review the rulemaking process by the Texas Department of Insurance (TDI) and the adoption of an updated plan of operation by TWIA. Monitor whether the purchase of reinsurance has increased or declined and determine whether this provision of the legislation has had any impact on premium rates. Monitor the appointment and work of the Legislative Funding and Funding Structure Oversight Board.

Chairman Lucio and Members of the Committee. My name is Brian Maxwell and I am the City Manager for the City of Galveston. On behalf of the City of Galveston, I want to express our appreciation for this opportunity to provide written comments on Interim Charge 1, specifically as it relates to the implementation of HB 1900 provisions amending the Texas Windstorm Insurance Association (TWIA) operations and funding practices.

The City of Galveston wishes to recognize the leadership of Chairman Lucio and the significant work of this Committee to address the complex financing issues impacting the cost of critical windstorm insurance for families living along the Texas coast.

The City of Galveston strongly supported the critical TWIA legislation enacted by the 86th Legislature. H.B. 1900, authored by State Representative Greg Bonnen MD and sponsored by State Senator Larry Taylor, providing essential reforms that should decrease the need for a premium rate increase. This legislation includes key procedures to strengthen transparency and facilitate cost-efficient replenishment of the Catastrophe Reserve Trust Fund. One such pivotal reform requires insurance companies to pay 100 percent of the reinsurance cost that is above the minimum statutory 100-year storm requirement.

Funding reforms enacted with more likely to come, will further empower TWIA with alternative approaches that can avoid placing the heaviest burden on struggling consumers. Accordingly, any premium increase would be premature at this time.

The ability of coastal residents and business owners to insure their property is a critical component to maintaining economic stability and quality of life not only for coastal areas, but the entire state of Texas. Maintaining affordable TWIA coverage is essential as many Hurricane Harvey impacted communities continue to struggle with rebuilding. Windstorm insurance is not only necessary to protect real estate against losses, but it is also necessary to obtain financing for single-family homes, rental property, condominiums, and commercial buildings.

Premium increases will have a detrimental impact on the housing market in Hurricane Harvey impacted communities. Increased building costs and higher premiums present greater challenges for potential homebuyers and businesses to qualify for mortgages, thus thwarting recovery for an already struggling tax base.

Through current statutory authority, TWIA is empowered to take a different approach that doesn't place the heaviest burden on struggling consumers. TWIA may draw upon a more balanced approach through member insurance company assessments, bonds, and premiums to offset losses. However, I believe the HB 1900 legislative intent to examine the TWIA funding structure provides a unique opportunity to view TWIA in a significantly different role that will facilitate greater benefits for stakeholders and the State of Texas.

Since 1971, the TWIA role has been “the insurer of last resort” as a primary retail insurance provider in the fourteen (14) counties along the Texas coastline. Over the past forty-seven years, the Legislature has attempted to correct a myriad of financial, adjudication, and policy issues and problems with TWIA, with the most recent major reforms occurring in 2011 and 2015. I believe rather than taking on another band-aid approach to correct a dysfunctional system, the Committee should recommend to the Legislature that TWIA continue not as a primary retail insurer, but as a provider of reinsurance for the private insurance market.

Restructuring TWIA as a reinsurance provider reinsurer is an option the Sunset Advisory Commission Staff Report identifies as an alternative considered (see page 20, Staff Report). The Staff Report suggests this as an option that would incentivize the private insurance market to provide more affordable windstorm insurance along the Texas coast. Under this alternative as described in the Staff Report, as a reinsurer TWIA would receive a portion of the premiums insurance companies collected and invest the funds. In the event of a catastrophic storm, TWIA would offset the risk to insurance companies by paying for claims once the claims exceed a certain cost threshold.

While the Staff Report dismisses this reinsurer role alternative as an untested concept, I do not believe the alternative has been fully vetted or the advantages completely recognized. I would urge the Committee to more closely examine implementation as well as the benefits to policyholders and the state by restructuring TWIA in a reinsurer role.

I would share the following structure and benefits of TWIA in a reinsurance role:

1. As a reinsurer, TWIA could sell low cost attachments to private market insurance companies.
 - A significant number of windstorm claims processed by TWIA involve smaller claim amounts.
 - A low cost attachment could restrict TWIA coverage to claims above \$25,000.
 - Such an arrangement would reduce the risk for the private insurance company. Moreover, TWIA could market the low cost attachment statewide to induce greater private sector participation as well as further spread and reduce risk.
 - In addition, such an arrangement could allow private insurance companies to bundle policies (i.e. homeowners, automobile, life, and windstorm), thus providing an even more lucrative incentive.
 - By reducing risk and expanding private insurance market involvement, premiums can become more affordable for policyholders.
2. There are significant advantages for the State:
 - As a reinsurer, TWIA reduces its overhead no longer paying commissions, processing small claims, or involved in an expensive claims adjudication process.
 - Rather than continue as a costly drain as a primary retail insurance provider competing with the private market, TWIA becomes a reinsurance provider that generates revenue for the state.

Coastal counties represent 33.4 percent of Texas' real gross product, 23.5 percent of the state's population, and 25 percent of Texas jobs. The ability of coastal residents and business owners to insure their property is a critical component to maintaining economic stability and quality of life not only for coastal areas, but the entire state of Texas. Maintaining affordable windstorm coverage is essential for sustaining a workforce on the Texas coast that provide services critical industries for Texas.

I urge the Committee to consider Interim Charge 1 review as a unique opportunity to recommend significant restructuring of TWIA that will provide long-term solutions that achieve affordable quality windstorm insurance for property owners in Texas.

Thank you for this opportunity to provide written comments. The City of Galveston stands ready to assist the Committee as you evaluate and weigh alternatives and recommendations to improve TWIA and provide sustainable, affordable windstorm protection.

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